

April 15, 2006

Ms. Mary Rupp, Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, Virginia 22314-3428

By email: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Dear Ms. Rupp:

Chevron Federal Credit Union is hereby writing in response to the National Credit Union Administration's (NCUA) request for public comments on Advance Notice of Proposed Rulemaking on Supervisory Committee Audits, 71 FR 9278, dated February 23, 2006 on the following two issues:

- A. Whether to require credit unions to obtain an "attestation on internal controls" in connection with their annual audits (questions 1-7).
- B. What standards should govern the assessment and attestation components of such an engagement (questions 8-9).

Chevron Federal Credit Union strongly believes in sound internal controls over financial reporting in order to provide accurate and reliable financial reports to our regulators, our Board of Directors and our membership. These internal controls should be documented and reviewed. They should also be used by the independent auditors. However, we do not believe that an onerous process be instituted through attestation of internal controls over financial reporting.

**Question No. 1 – Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum asset size threshold? Explain why or why not.**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. Credit unions are limited in financial complexity by NCUA Rules and Regulations. Our financial reports are examined by the NCUA. There is already a requirement to have annual financial statement audits for credit unions with assets of \$500 million or more, whereby the certified public accounting firms review the credit unions' system of internal controls to assess level of reliance and determine the scope of audit work.

The attestation on internal controls over financial reporting is onerous and costly for credit unions. We have been advised by our independent auditors that the cost can be as much as our current annual audit fee. This additional financial burden does not garner any benefits to our members.

We believe that certification by chief executive of the credit union over accuracy of financial reporting is adequate.

**Question No. 2 – What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting, given the additional burden on management and its external auditor? Explain the reasons for the threshold you favor.**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, the asset size threshold should be \$1 billion, consistent with the Federal Deposit Insurance Corporation’s (FDIC) requirement of its insured institutions.

We believe there are significant differences between a \$1 billion financial institution insured by the FDIC in comparison with a \$1 billion credit union insured by the NCUA. Not only are our philosophies different in that credit unions serve members, who are owners, we have higher levels of capital requirements, we have more stringent lending and investing rules and regulations and we have field of membership restrictions.

**Question No. 3 – Should the minimum asset size threshold for requiring an “attestation on internal controls” over financial reporting be the same for natural person credit unions and corporate credit unions? Explain why.**

Chevron Federal Credit Union believes that all corporate credit unions should be required to an “attestation on internal controls” over financial reporting. Corporate credit unions have become very complex, offering a wide range of investments and services to their member credit unions, whereby they are utilizing many forms of complex financial instruments including derivatives to hedge their offerings in addition to serving as counter-party on contracts to member credit unions.

Member credit unions place a lot of reliance and are generally heavily invested with their corporate credit unions. The added financial reporting transparency would be prudent.

**Question No. 4 – Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting. (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, we believe it should apply to cover all financial reporting to include financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes as these reports are made available to members for decision making purposes and to regulators for safety and soundness check.

**Question No. 5 – Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?” Explain the reasons for your answer.**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is

such a requirement, we believe there is benefit in having the same auditor perform both the financial statement audit and the “attestation on internal controls” over financial reporting. The auditor performing both will have a better understanding of its credit union client’s financial reporting environment and can better identify any deficiencies in the financial reports.

**Question No. 6 – If an “attestation on internal controls” were required of credit unions, should it be required annually or less frequently? Why?**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, we believe it should be performed annually in conjunction with audit of financial statement to better enhance the published financial statements.

**Question No. 7 – If an “attestation on internal controls” were required of credit unions, when should the requirement become effective (i.e., in the fiscal period beginning after December 15 of what year)?**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, we believe become effective no earlier than 24 months of the effective date to allow credit unions time to document their internal controls and to identify an independent audit firm to perform such work.

**Question No. 8 – If credit unions were required to obtain an “attestation on internal controls,” should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB’s AS 2 standard that applies to non-public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies? Please explain your preference.**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, we believe the less onerous form applicable to non-public companies would be more applicable. However, NCUA should consider establishing its own set of standards as credit unions are non-public companies with a different philosophy and are already highly restricted in its business activities.

**Question No. 9 – Should NCUA mandate COSO’s Internal Control – Integrated Framework as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of the internal control structure and procedures, or should each credit union have the option to choose its own standard?**

Chevron Federal Credit Union does not believe that an attestation on internal controls over financial reporting is necessary for the credit union industry. However, if there is such a requirement, we believe there should be uniformity amongst credit unions in establishing, maintaining and assessing the effectiveness of the internal control structure and procedures.

Thank you for your consideration of Chevron Federal Credit Union's comments.

Sincerely,

James E. Mooney  
President/CEO